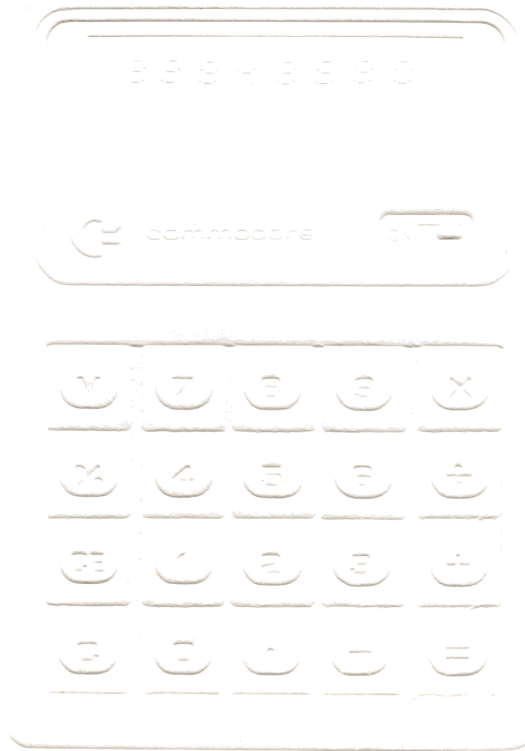
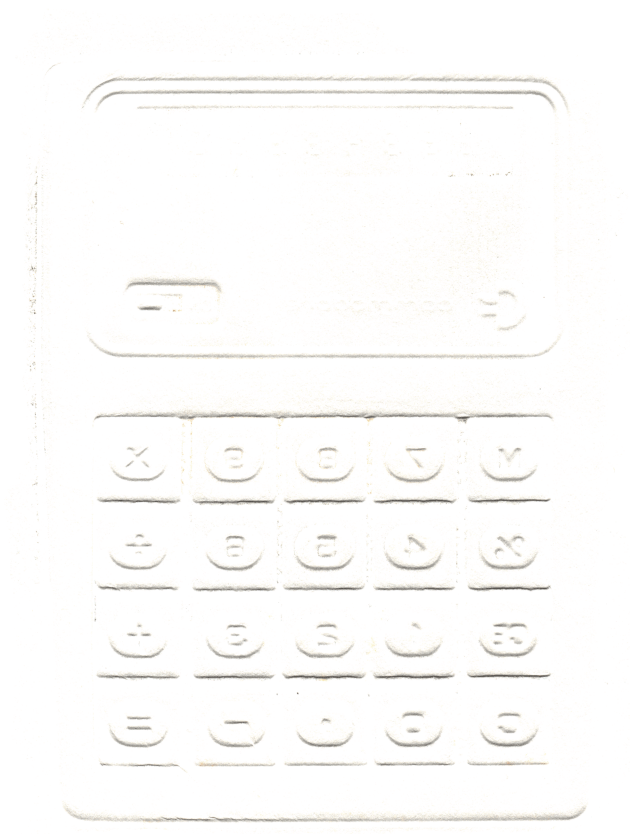


# Commodore Business Machines



## Annual Report 1973



*“Commodore. The name you can count on and count on and count on.”*

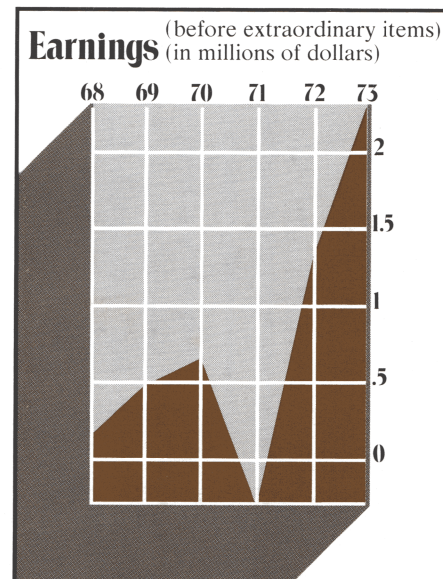
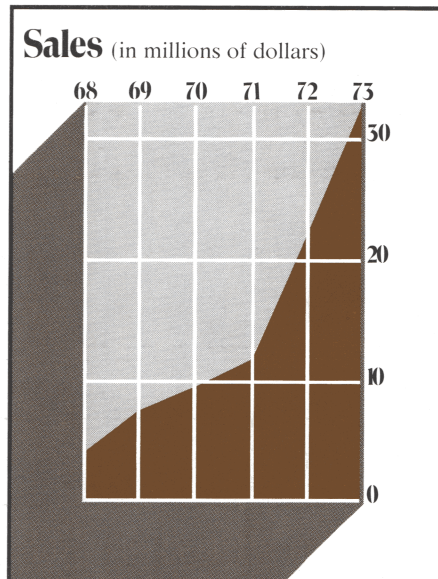


To the Shareholders:

June 30, 1973 marked another outstanding fiscal period for us. It was a year during which Commodore achieved record consolidated sales and earnings.

Sales for 1973 increased 48% to \$32,848,680, as compared to \$22,151,844 reached in 1972. Net income before extraordinary items climbed to \$2,288,321, an impressive 68% increase over last year's record of \$1,361,624. Earnings per share during 1973 rose to \$1.83 measured against \$1.11 at the close of the previous year.

As we anticipated in our last annual message, 1973 was an exciting year. The pace of technological change quickened sharply and each new breakthrough brought savings in time and money. These economies assured increased profits and lessened the product price at market, awakening new untapped consumer audiences throughout the world.



## 6 Year Financial Highlights

(United States Currency)	1973	1972	1971	1970	1969	1968
SALES	\$32,848,680	\$22,151,844	\$13,494,272	\$9,418,321	\$7,477,426	\$4,139,886
EARNINGS (before extraordinary items)	\$ 2,288,321	\$ 1,361,624	\$ (275,065)	\$ 695,310	\$ 467,476	\$ 130,750
EARNINGS PER SHARE (before extraordinary items based on Canadian Method)	\$1.83	\$1.11	\$(.23)	\$.58	\$.41	\$.12
SHARES OUTSTANDING (average number)	1,252,535	1,229,333	1,215,615	1,197,487	1,146,241	1,094,987
WORKING CAPITAL	\$ 6,868,361	\$ 4,341,065	\$ 3,013,625	\$3,379,449	\$2,480,096	\$1,725,175
SHAREHOLDERS' EQUITY	\$ 8,461,741	\$ 5,227,359	\$ 3,315,327	\$3,613,362	\$2,785,036	\$1,962,457

2

*“These teams are destined to give Commodore far greater depth and importance in tomorrow’s electronics industry.”*

Our continued readiness to adapt to these innovations, coupled with the readiness of our customers to schedule their purchases accordingly, greatly strengthened our leadership in the marketplace and made 1973 the finest and most profitable year in our corporate history.

Technology remains the key to our growth. Those discoveries that have considerably altered the complexion of our industry continue to help us gain a commanding position within it.

Technology has proven to be the nucleus from which new and imaginative products have emerged. Our continued commitment in this vital area is reflected by the calibre and dedication of our engineering staffs in Japan, Colorado and California.

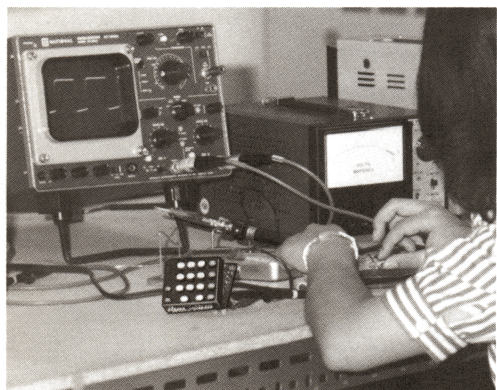
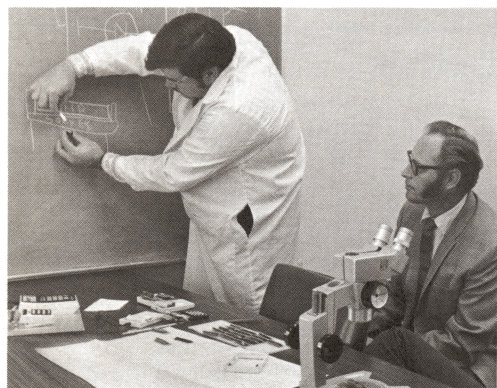
Members of these teams are presently involved in projects which are destined to give Commodore far greater depth and importance in tomorrow’s electronics industry. As we had mentioned earlier, major scientific advances have enabled us to enjoy significant cost reductions in manufacturing.

Under these circumstances, and in light of the ever-increasing number of calculators we are producing, our course is clear; we intend to build our own components. Our engineers are presently engaged in the in-house development of these proprietary components.

In production now is our own MOS/LSI chip set for 2-memory, square root printing calculators. Equipment featuring this technology will be at the marketplace within the next ninety days.

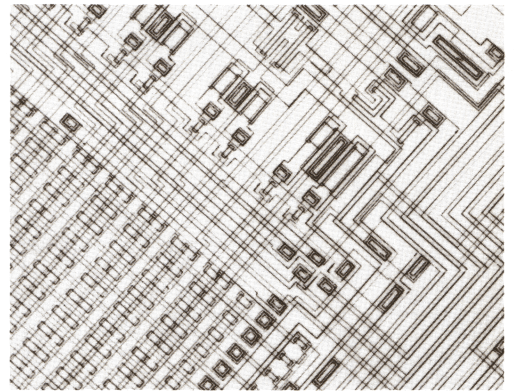
Our engineers have already developed an efficient and reliable keyboard which will enter mass production during the third quarter of fiscal 1974.

Destined for design completion in this same time frame is a series of advanced technology chips. From these logic components will evolve an even broader line of handheld and desktop calculators—ranging from simple arithmetic machines to scientific application equipment.

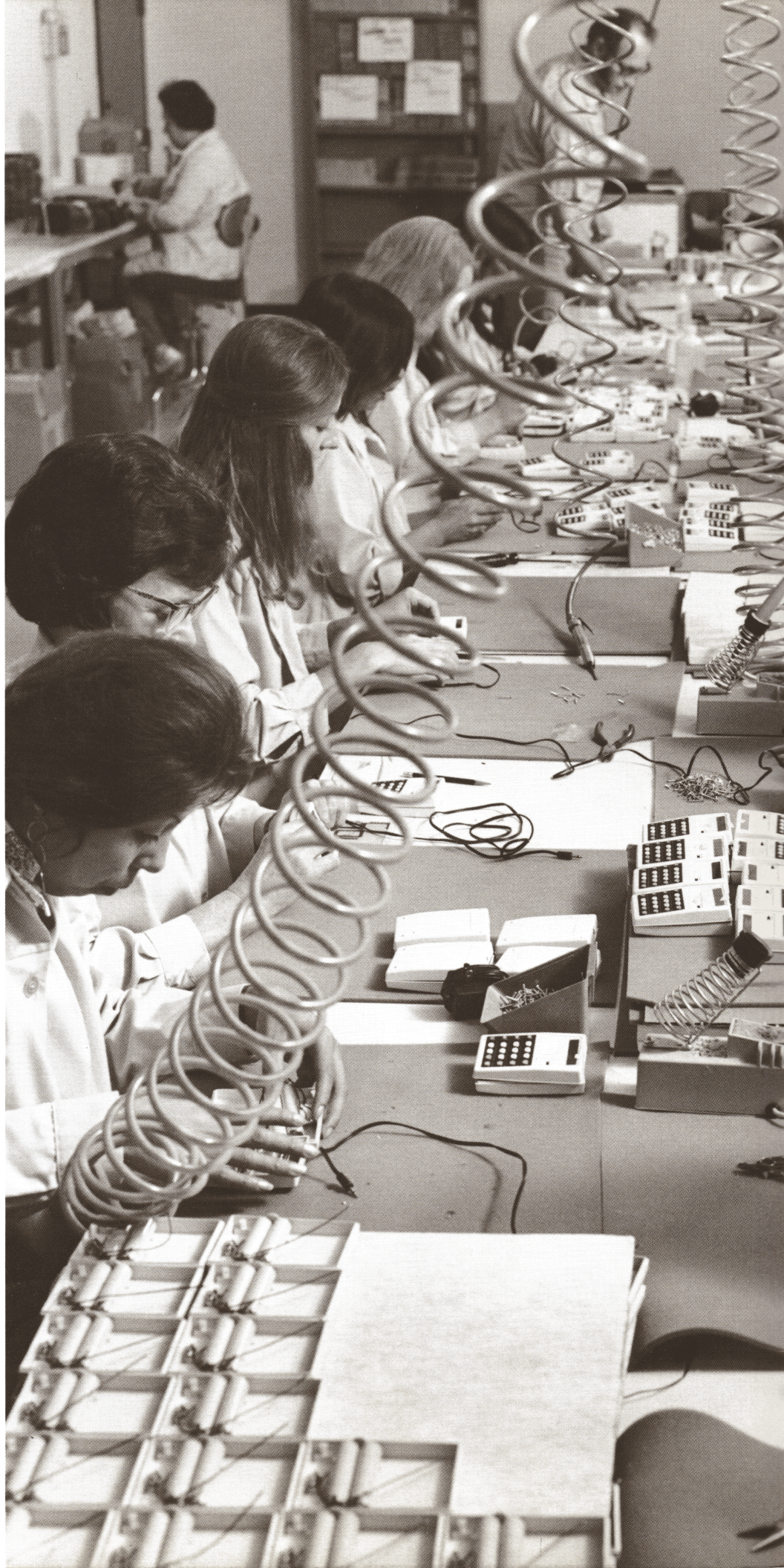
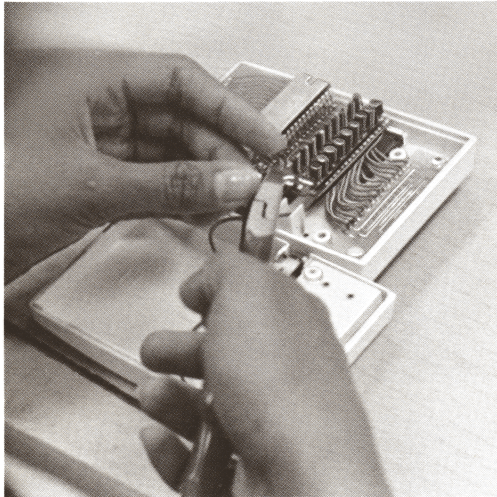




3



4



*“More Commodore calculators were produced during the last 365 days than in any previous year.”*

Our manufacturing division, too, regards 1973 as a banner year. More Commodore calculators were produced during the last 365 days than in any previous year.

This record productivity was due, in part, to our original program of subcontracting work to independent assembly facilities. Initially, this plan was effective as it afforded us the freedom to develop our own facilities without interrupting the flow of equipment to our customers.

But change continues to be an inevitable fact in our business. During the last quarter of the year, technological changes and increased demand for products began to create significant component shortages. The inflexibility of several outside assemblers to work closely with us in rapidly altering their model production, thereby utilizing available components, resulted in an excessively high inventory back-up.

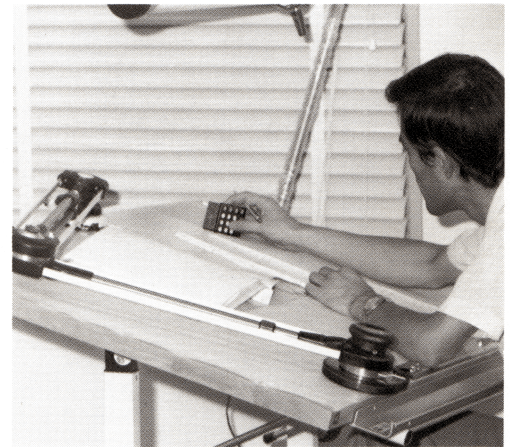
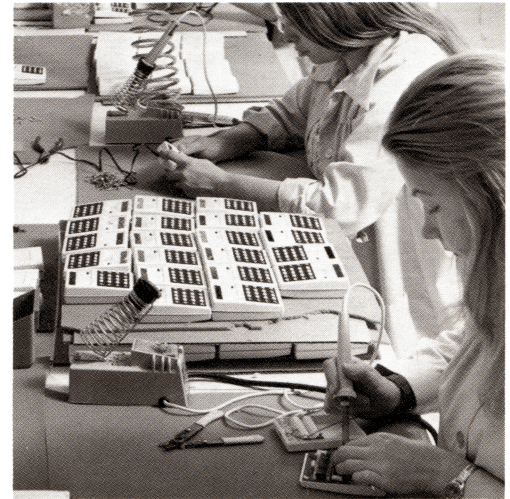
To remedy this situation, we began to rely more heavily on our own assembly facilities in both Santa Clara and Toronto. This new program has begun to give us greater independence and manufacturing flexibility. An inventory reduction of over \$2 million has already been realized.

The last twelve months may be referred to as, “The Year of the Portable.” It was during this period that the handheld display models became a highly sought after consumer product.

Mid 1973 saw the introduction of our Minuteman 3. This basic four function calculator, with constant figuring capability, was the first in a series of pocket size 8-digit capacity portables, all priced below \$100.

The second model in the series was our Minuteman 3M, featuring memory and percentage. Market acceptance of these new units was excellent. Production grew to full capacity in an attempt to answer the call for these five ounce machines.

Within a very brief time, the units were being merchandised in chain and department stores, in premium promotions and through mail order houses everywhere. The Minuteman 3P, an add-on/discount model featuring advantages for business applications, was the next entry to the line. This was followed by our Minuteman 3S, a square root version aimed at the student market.



# 6

*“These machines exemplify our market insight and our understanding as to who our public is, what it desires and how much it can afford to spend.”*

Fifteen years of in-depth marketing experience in the figuring machine business has enabled Commodore to acquire an acute sense of awareness towards the needs and wishes of our customers.

Machines such as our Minuteman 3 series, each with its own personality, exemplifies our market insight and our understanding as to who our public is, what it desires and how much it can afford to spend.



A more sophisticated square root portable calculator, the Commodore 2SR, with reciprocal, “X” to the second power, memory and percentage, was introduced late in the year. The model 2SR retails for \$119.95.

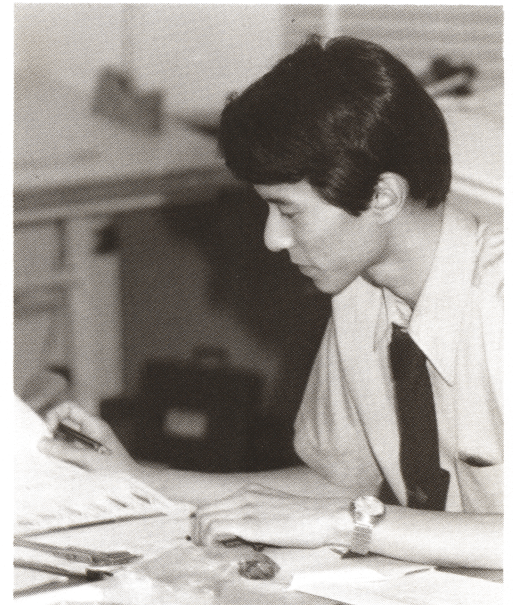
Another new model in our line of individualized portables is the 2PM.

This unit features a more versatile memory and automatic percentage.

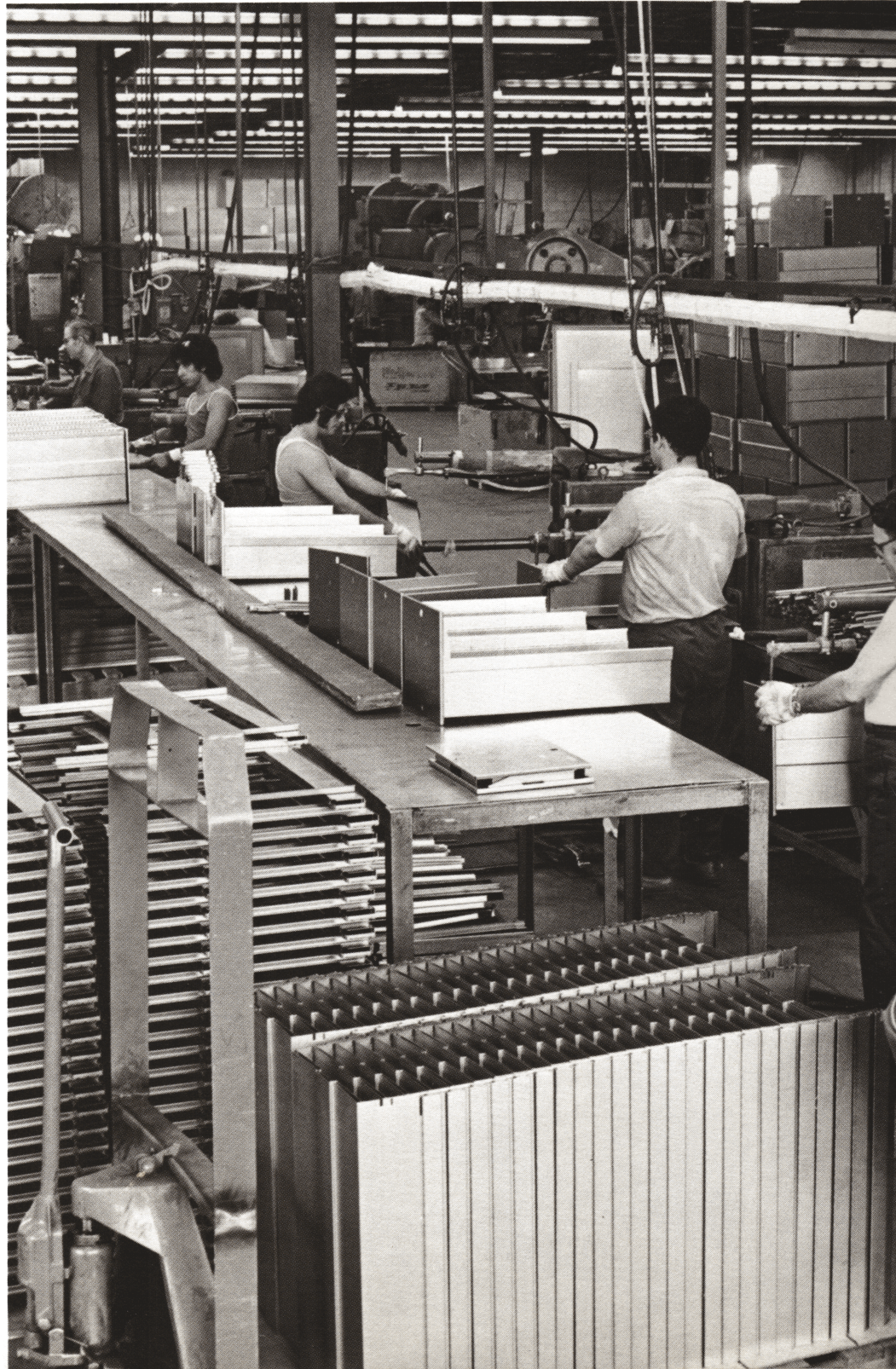
Our desktop models continued to sell successfully worldwide. To this line we added our US-IM, a compact, 8-digit unit with memory which retails for \$89.95.

Commodore’s consumer line of equipment is by far the most extensive in the field. In 1974, we plan to add a portable slide rule model capable of performing higher mathematical assignments, a metric conversion machine and a series of still lower priced portables. We will also introduce an AC/DC portable electronic printing calculator.

These are important products to a world where the calculator is fast becoming as commonplace as a pencil; where every student, housewife and businessman will depend on his or her calculator everyday. And printing calculators will serve households as do portable typewriters today.



8



*“The combined impact of this two-punch marketing plan gave our Canadian group their most successful year ever.”*

This world is not far off. And to take advantage of the opportunity it affords is the challenge which confronts Commodore today.

1973 has been a noticeable year of growth. One that has seen our company take its first major steps towards becoming a vertically integrated corporation producing its own components, manufacturing its own products and marketing its finished goods around the globe.

This past year was an excellent one for our Canadian manufacturing division. Historically, it has been recognized for its steel furniture production. This year, the addition of new capital equipment to increase productivity, along with a concerted marketing effort resulted in a record 75% rise in sales over the previous fiscal period. And for the first time, the full range of electronic calculators being sold in the United States was released to the Canadian market. The combined impact of this two-punch marketing plan gave our Canadian group their most successful year ever.

1973 was also the year we test marketed our furniture in the United States. The success of these tests points to 1974 as the year this profitable line of equipment will be brought to the American market.

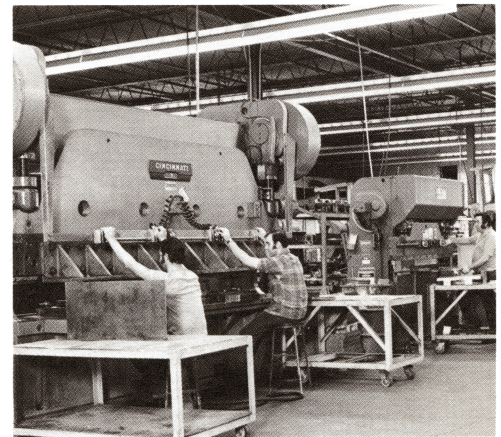
Our subsidiaries have also shown sizable growth during the past year.

In 1973, Commodore International Limited, the marketing and production arm serving our other subsidiaries, increased its direct selling efforts considerably. By developing major customers in Brazil, Panama, Switzerland, the Benelux Countries, South Africa and Israel, Commodore International has opened new doors for growth and expansion. It is to this division that we look for substantial gains in the coming year.

Commodore Japan Limited contributed materially to the overall corporate growth. It continues to play an ever-increasing part in the purchasing of components and the direction of subassembly work for domestic and worldwide production.

The year just passed shows record sales for the company and its emergence as a major marketer of electronic calculators in the Far East.

An extensive “Swing to Commodore” television and newspaper campaign, supported by a network of distributors and a determined selling force has given



# 10

*“Our subsidiaries have also shown sizable growth during the past year.”*

Commodore Japan substantial representation throughout the eight sales regions of the country. And its marketing activities this year were carried beyond Japan's borders to Taiwan, Hong Kong and Thailand.

The growth of our Far East division has recently warranted relocation to larger offices in Shinjuku, West Tokyo. Here, located in the heart of the city's new commercial center, our administrative, purchasing and sales departments look towards the further expansion of their marketing aims in Australia, South Korea, Singapore, Malaysia and New Zealand.

Our engineering staff, too, has acquired new larger facilities in Osaka where they are able to guide the quality control of our subassembly and component production. It is here that our Japanese research and development staff is involved with new product design in cooperation with corporate engineering in California and Colorado.

Sales by our British company also reached new peaks as the result of extensive progress in opening major mass merchandising outlets in the United Kingdom.

The first quarter of 1974 saw the formation of a brand new Commodore company: Commodore France. The establishment of this joint venture firm gives us much greater penetration into the lucrative French market. The development of Commodore France, together with Commodore Buromaschinen GmbH, in Hanover, West Germany, is indicative of our intentions to acquire a more substantial position of influence in the Common Market.

Last year we introduced Commodore Educational Systems Limited, a company formed to produce and market a unique teaching machine with collateral audio, visual and self-testing programs.

Since its inception, our educational company has enjoyed remarkable success in its start-up and initial sales endeavors. Branch offices outside of Tokyo have been established in a number of cities throughout Japan, to provide professional sales assistance to distributors and retailers in these principal markets.

During the new year, the company will broaden its sales program through the introduction of new products and increased distribution.

A new lower priced “Edutester,” the second unit in the series of self-help equipment, will be marketed during the first half of fiscal 1974. A nursery course put





# 12

*“Looking back, 1973 has been a good year. And we are confident that the year ahead will again be one worthy of praise.”*

to music is one of many new audio-visual teaching programs being added to the firm's product line. And the original 14-part English Course has already undergone its second printing.

We are pleased with the initiative our new company has shown during its first year and look forward to its continued progress in the twelve months ahead.

Every division has contributed measurably to our overall corporate growth. In the United States, as in Japan, the considerable increase in marketing, engineering and production activities, which we spoke of earlier, has prompted us to seek larger facilities.

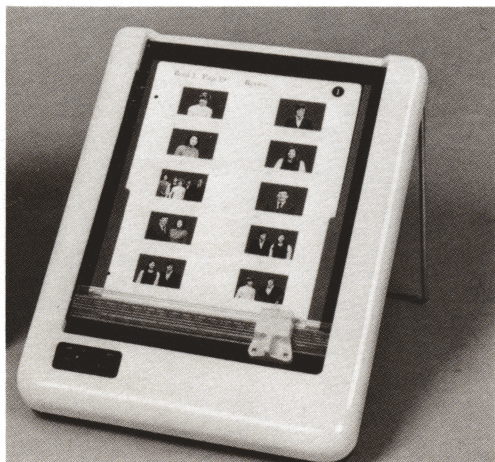
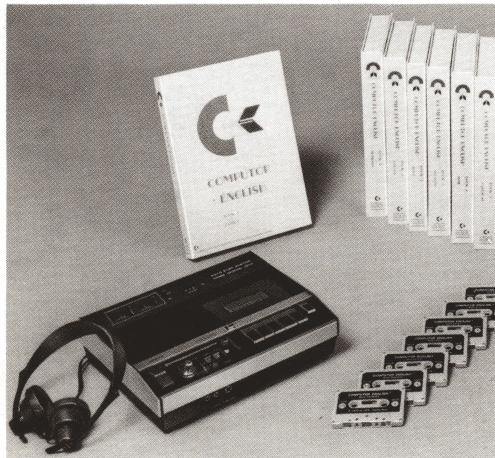
During the first quarter of 1974, we purchased a building at 901 California Street in Palo Alto, California. This new 33,000 square foot plant affords ample space for our enlarged administrative, marketing, engineering, production and warehousing operations. Renovation is presently under way and relocation is scheduled for December, 1973.

The building is situated on a 3.2 acre site to allow for further expansion. Financing for the new Commodore Center was provided by the American National Insurance Company of Galveston, Texas, through a \$615,000 mortgage, payable at 8½% interest over a twenty-five year period.

As Commodore grows so does its need for good professional people. Last year we strengthened our staffs in all divisions. As we progress we will continue to seek the talents of those best equipped to support and further the momentum of our company.

Looking back, 1973 has been a good year. We recognize that its impressive growth is the direct result of the hard work, dedication and support of our employees, our suppliers, our customers and our many business associates throughout the world.

Confident that the year ahead will again be one worthy of praise, I join with my fellow directors in extending my sincere gratitude for your continued support.



*Jack Tramiel*  
 Jack Tramiel  
 President  
 October 15, 1973

# 13

**Commodore Business Machines  
(Canada) Limited and Subsidiaries  
1973 Consolidated Financial Statements**

# Commodore Business Machines (Canada) Limited and Subsidiaries Consolidated Balance Sheets

(Expressed in United States Currency)

ASSETS	June 30,	
	1973	1972
<b>Current Assets:</b>		
Cash . . . . .	\$ 1,380,098	\$ 331,261
Short-term deposits and marketable securities, at cost (which approximate market) . . . . .	20,000	2,105,987
Accounts receivable, less allowance of \$606,741 in 1973 and \$431,700 in 1972 for doubtful accounts (Note 7). . . . .	6,446,872	2,679,801
Income taxes recoverable (Note 2). . . . .	132,137	74,000
Inventories, at the lower of cost (first-in, first-out) or market (Note 7)—		
Finished goods . . . . .	3,369,121	613,803
Raw materials and work-in-process . . . . .	11,322,691	1,128,378
Prepaid expenses . . . . .	318,189	156,364
Total current assets . . . . .	<u>22,989,108</u>	<u>7,089,594</u>
<b>Equipment and Improvements, at cost (Note 1) .</b>	<b>1,209,779</b>	<b>791,799</b>
Less— Accumulated depreciation and amortization . . . . .	514,631	409,857
	<u>695,148</u>	<u>381,942</u>
<b>Other Assets:</b>		
Investment in suppliers (Note 3) . . . . .	60,700	54,700
Deferred product development and preoperating costs of a subsidiary (Note 4) .	844,047	300,309
Research and development costs (Note 5) . . .	1,044,229	149,342
Patents, trademarks and other manufacturing rights . . . . .	1	1
	<u>1,948,977</u>	<u>504,352</u>
	<u><u>\$25,633,233</u></u>	<u><u>\$7,975,888</u></u>

Approved on behalf of the Board;  
Irving Gould, Director  
Jack Tramiel, Director

The accompanying notes to consolidated financial statements are an integral part of these balance sheets.

LIABILITIES	June 30,	
	1973	1972
<b>Current Liabilities:</b>		
Advances from finance company, secured by certain receivables and inventories . . . .	\$ 4,164,846	\$ —
Notes payable (Notes 6 and 7) . . . . .	2,347,884	500,000
Accounts payable . . . . .	8,331,719	1,854,593
Accrued liabilities . . . . .	458,796	146,360
Income taxes payable . . . . .	817,502	247,576
Total current liabilities . . . . .	16,120,747	2,748,529
<b>Deferred Income Taxes</b> (Note 1) . . . . .	510,000	—
<b>Minority Interest in a Subsidiary</b> . . . . .	540,745	—
<b>Commitments and Contingent Liabilities</b> (Notes 8 and 11)		
<b>Shareholders' Equity:</b>		
Capital stock—		
Preference— Authorized 100,000 redeemable, 6% cumulative shares of \$10 par value; none issued. . . . .	—	—
Common— Authorized 3,000,000 shares of no par value; issued 1,259,318 in 1973, 1,242,152 in 1972 (Note 9) . . . . .	1,977,229	1,904,391
Retained earnings . . . . .	5,576,509	3,096,188
Contributed surplus . . . . .	908,003	226,780
	8,461,741	5,227,359
	<u>\$25,633,233</u>	<u>\$7,975,888</u>

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## Commodore Business Machines (Canada) Limited and Subsidiaries Consolidated Statements of Operations

(Expressed in United States Currency)

	<u>Year Ended June 30,</u>	
	<u>1973</u>	<u>1972</u>
<b>Net Sales.</b> . . . . .	<b>\$32,848,680</b>	\$22,151,844
<b>Cost of Sales.</b> . . . . .	<b>25,953,514</b>	17,855,578
Gross profit . . . . .	<u>6,895,166</u>	<u>4,296,266</u>
<b>Operating Expenses:</b>		
Selling. . . . .	<b>1,420,534</b>	1,382,457
General and administrative . . . . .	<b>1,450,401</b>	899,789
Research and development . . . . .	<b>212,319</b>	—
Interest expense (income), net of interest income of \$66,400 in 1973 and interest expense of \$52,696 in 1972 . . . . .	<b>250,591</b>	(38,604)
	<u>3,333,845</u>	<u>2,243,642</u>
Income from operations . . . . .	<u><b>3,561,321</b></u>	<u>2,052,624</u>
<b>Provision for Income Taxes</b> (Notes 1 and 2):		
Current . . . . .	<b>763,000</b>	691,000
Deferred. . . . .	<b>510,000</b>	—
	<u>1,273,000</u>	<u>691,000</u>
Income before extraordinary item . . . . .	<u><b>2,288,321</b></u>	<u>1,361,624</u>
<b>Extraordinary Item:</b>		
Reduction of income taxes resulting from carryforward of prior years' losses . . . . .	<b>192,000</b>	431,000
Net income. . . . .	<u><u><b>\$ 2,480,321</b></u></u>	<u><u>\$ 1,792,624</u></u>

	<u>1973</u>		<u>1972</u>	
<b>Earnings Per Share</b> (Note 10):	<b>Income Before Extraordinary Item</b>	<b>Net Income</b>	<b>Income Before Extraordinary Item</b>	<b>Net Income</b>
Canadian Method—				
Primary . . . . .	<b>\$1.83</b>	<b>\$1.98</b>	\$1.11	\$1.46
Fully diluted . . . . .	<b>1.45</b>	<b>1.56</b>	.87	1.16
United States Method—				
Primary . . . . .	<b>\$1.51</b>	<b>\$1.64</b>	\$ .95	\$1.25
Fully diluted . . . . .	<b>1.51</b>	<b>1.64</b>	.90	1.19

The accompanying notes to consolidated financial statements are an integral part of these statements.

# Commodore Business Machines (Canada) Limited and Subsidiaries

## Consolidated Statements of Changes in Financial Position

# 17

(Expressed in United States Currency)

	<u>Year Ended June 30,</u>	
	<u>1973</u>	<u>1972</u>
<b>Funds Were Provided By:</b>		
Operations, exclusive of extraordinary item —		
Income before extraordinary item. . . . .	\$2,288,321	\$1,361,624
Items not requiring outlay of working capital in the current period —		
Depreciation and amortization (substantially straight-line) . . . . .	326,777	126,773
Increase in deferred income taxes. . . . .	510,000	—
Total provided by operations. . . . .	3,125,098	1,488,397
Extraordinary item. . . . .	192,000	431,000
	3,317,098	1,919,397
Sale of common stock . . . . .	72,838	119,408
Net proceeds from public offering of majority owned subsidiary (Note 4) . . . . .	1,221,968	—
Dissolution of investment in affiliated company	—	61,755
	4,611,904	2,100,560
<b>Funds Were Applied To:</b>		
Investment in affiliated company . . . . .	—	11,755
Purchase of equipment and improvements . . . . .	631,605	298,504
Expenditures for—		
Deferred product development and preoperating costs of a subsidiary. . . . .	552,116	258,819
Research and development costs . . . . .	894,887	149,342
Investment in a supplier. . . . .	6,000	54,700
	2,084,608	773,120
Increase in working capital. . . . .	\$2,527,296	\$1,327,440
<b>Changes in Components of Working Capital:</b>		
Increase (decrease) in current assets—		
Cash. . . . .	\$1,048,837	\$ (788,307)
Short-term deposits and marketable securities . . . . .	(2,085,987)	1,640,612
Accounts receivable. . . . .	3,767,071	(1,159,781)
Income taxes recoverable . . . . .	58,137	(107,000)
Inventories. . . . .	12,949,631	(533,121)
Prepaid expenses . . . . .	161,825	26,485
(Increase) decrease in current liabilities—		
Advances from finance company . . . . .	(4,164,846)	1,835,994
Notes payable . . . . .	(1,847,884)	(500,000)
Accounts payable and accrued liabilities . . . . .	(6,789,562)	1,160,134
Income taxes payable . . . . .	(569,926)	(247,576)
Increase in working capital. . . . .	\$2,527,296	\$1,327,440

The accompanying notes to consolidated financial statements are an integral part of these statements.

# Commodore Business Machines (Canada) Limited and Subsidiaries

## Shareholders' Equity and Notes to Consolidated Financial Statements June 30, 1973

### SHAREHOLDERS' EQUITY

	<u>Common Stock</u>		<u>Retained</u>	<u>Contributed</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Earnings</u>	<u>Surplus</u>	<u>Total</u>
Balance, June 30, 1971 . . .	1,220,386	\$1,784,983	\$1,303,564	\$226,780	\$3,315,327
Net income for the year . .			1,792,624		1,792,624
Sale of common stock upon exercise of options and warrants. . . . .	21,766	119,408			119,408
Balance, June 30, 1972 . . .	1,242,152	1,904,391	3,096,188	226,780	5,227,359
Net income for the year . .			2,480,321		2,480,321
Sale of common stock upon exercise of options and warrants. . . . .	17,166	72,838			72,838
Majority interest in public offering of Commodore Educational Systems Limited (Note 4). . . . .				681,223	681,223
Balance, June 30, 1973 . . .	<u>1,259,318</u>	<u>\$1,977,229</u>	<u>\$5,576,509</u>	<u>\$908,003</u>	<u>\$8,461,741</u>

The accompanying notes to consolidated financial statements are an integral part of this statement.

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Principles of Consolidation**—The consolidated financial statements include the accounts of Commodore Business Machines (Canada) Limited and all subsidiaries after elimination of intercompany accounts and transactions. All such subsidiaries were wholly-owned as of June 30, 1973, except for Commodore Educational Systems Limited in which the Company holds an interest of 62 percent (see Note 4).

The consolidated financial statements are expressed in United States currency. For foreign operations, current assets and current liabilities have been translated at year-end rates of exchange and all other assets and liabilities have been translated at historical rates. Income, costs and expenses were translated at average rates prevailing during the year. Gains or losses resulting from translations are reflected in the consolidated statements of operations. Such gains and losses have not been material.

**Equipment and Improvements**—Major classes of equipment and improvements are as follows:

<u>Description</u>	<u>June 30,</u>		<u>Estimated Useful Lives</u>
	<u>1973</u>	<u>1972</u>	
Machinery and Equipment . . . . .	\$ 531,062	\$357,722	2-10 years
Furniture and Fixtures . . . . .	129,881	90,756	5-10 years
Tooling . . . . .	474,638	303,325	Expected sales not to exceed 2 years
Leasehold Improvements . . . . .	74,198	39,996	Life of lease
	<u>\$1,209,779</u>	<u>\$791,799</u>	

Depreciation has been provided on the straight-line method over the estimated useful lives of the assets for both financial reporting and tax purposes.

Expenditures for maintenance and repairs are charged to expense as incurred. Expenditures for major betterments or renewals are capitalized.

The net gain or loss on items of equipment retired or otherwise disposed of is credited or charged to income and the asset cost and related accumulated depreciation or amortization is removed from the accounts.

**Research and Development Costs**—Research and development costs incurred in connection with the development of new products are capitalized for book purposes and amortized by charges against income based upon an initial number of expected sales over a period estimated not to exceed three years (see Note 5). These costs are deducted for tax purposes in the year incurred and deferred income taxes are provided.

**Patents, Trademarks and Other Manufacturing Rights**—The Company has expensed all costs of obtaining patents, trademarks and other manufacturing rights in the year incurred.

**Investment Tax Credits**—The Company accounts for investment tax credits as a reduction of the provision for taxes on income in the year in which the related credit is utilized. Such credits have not been significant.

**Reclassification**—Certain reclassifications have been reflected in the consolidated statement of operations for the year ended June 30, 1972, to present it on a basis consistent with 1973.

## 2. INCOME TAXES

During fiscal 1972, settlements were reached on claims for refund of income taxes paid for fiscal years 1962 to 1964, and refunds of \$155,210 plus interest were received; additional refunds of \$74,000 plus interest were received in the first quarter of 1974. The interest received of \$48,250 (in 1972) and \$41,200 (in 1974) resulting from this settlement are included in the accompanying statement of operations for 1972 and 1973, respectively.

The variation from the customary relationship between provision for income taxes and income before income taxes results primarily from a portion of consolidated income being contributed by a subsidiary incorporated in a jurisdiction which does not levy income taxes.

## 3. INVESTMENTS

During 1973, Commodore Business Machines, Inc. sold its 70 percent interest in Optimized Technology, Inc. In exchange, Commodore received 27,350 shares of capital stock of Standard Microsystems Corporation, one of the Company's suppliers, and rights to certain product research.

The Standard Microsystems Corporation capital stock was purchased by Optimized Technology for \$54,700 in 1972. These shares are restricted from sale until February, 1974. Also, as a result of the settlement of intercompany advances, product research has been included by the Company at its cost of \$78,270 in research and development costs in the accompanying balance sheet at June 30, 1973.

## 4. COMMODORE EDUCATIONAL SYSTEMS LIMITED

The Company formed a Bahamian subsidiary, Commodore Educational Systems Limited, to develop, promote and market, initially in Japan, a table model language laboratory and teaching machine, together with courses for use in conjunction with this machine. Deferred product development and preoperating costs incurred were \$844,047 (net of amortization of \$8,400) at June 30, 1973, and \$300,309 at June 30, 1972. The subsidiary was in the development stage until March 31, 1973; and, accordingly, these costs have been deferred. The deferred product development and preoperating costs are being amortized based on the total estimated units of sales from March 31, 1973, to June 30, 1976.

Commodore Educational Systems Limited completed a public offering of 180,000 shares of its capital stock in January, 1973 (which resulted in a 38% minority interest). The net proceeds of the offering (approximately \$1,222,000) were used to liquidate \$500,000 of unsecured 7% notes payable (Note 7), and the balance for working capital purposes. The public offering at \$9.50 per share resulted in contributed surplus to the parent company of \$681,223.

## 5. RESEARCH AND DEVELOPMENT COSTS

As of June 30, 1973, the Company had deferred research and development costs of \$1,044,229 which includes \$525,000 of costs deferred in conjunction with Commodore Systems, Inc. (Note 6) and the balance resulting principally from the development of integrated circuits for printing calculators. The Company intends to amortize these costs based upon an initial number of expected sales over a period not to exceed three years.

**6. COMMODORE SYSTEMS, INC.**

In April, 1972, Commodore Business Machines, Inc. entered into various agreements with Varadyne Industries, Inc., Bank of America, and others concerning Varadyne's calculator operation being conducted by its then subsidiary, Varadyne Systems, Inc. The name of this company was later changed to Commodore Systems, Inc. The arrangements provided, among other things, that Commodore Business Machines (Canada) Limited and subsidiaries would guarantee a bank line of credit for Systems for up to \$1,000,000.

As of October 31, 1972, Commodore Systems, Inc. ceased to operate, and the Company's obligation under the guaranteed line of credit was \$797,884 (Note 7) which has been recorded in the accompanying consolidated balance sheet in 1973. In connection with its obligation under the line of credit, the Company received certain inventories and product research of Commodore Systems, Inc. The Company incurred a loss of \$112,000 which was recorded as cost of sales in the accompanying statement of operations in 1973.

**7. NOTES PAYABLE**

The notes payable at June 30, 1973 and 1972, are described below:

	<u>1973</u>	<u>1972</u>
12% note payable, secured by a collateral mortgage on land owned by companies which are controlled by a director, personally guaranteed by a director, and also by the Chairman of the Board, due April, 1974 . . . . .	\$1,000,000	\$ —
9½% note payable to the Company's Chairman of the Board, unsecured, due on demand . . . . .	500,000	—
9½% note payable to bank under the guarantee for Commodore Systems, Inc. (Note 6), secured by certain receivables and inventories, due in varying amounts through December, 1973 . . . . .	797,884	—
10% note payable to Diversified Credit Corporation (a Bahamian corporation owned by the Company's Chairman of the Board), unsecured, due on demand . . . . .	50,000	—
7% notes payable, unsecured, including \$400,000 issued to a Bahamian corporation owned by the Chairman of the Board, due May 31, 1973 . . . . .	—	500,000
Total . . . . .	<u>\$2,347,884</u>	<u>\$500,000</u>

**8. COMMITMENTS**

At June 30, 1973, virtually all of the premises utilized by the Company and its subsidiaries were occupied under long-term leases which expire at various dates to April, 1984. Aggregate rental commitments remaining under these lease contracts were approximately \$1,434,000 at June 30, 1973, including approximately \$204,000 due within one year.

As of June 30, 1973, the Company has purchase commitments of approximately \$28,000,000, which are cancellable under certain conditions, for future delivery of component parts and assembly of calculators.

A subsidiary (Commodore Japan, Ltd.) is contingently liable at June 30, 1973 for trade receivables of approximately \$120,000 discounted at banks.

#### 9. SHARE PURCHASE WARRANTS AND STOCK OPTIONS

As of June 30, 1973, the Company has reserved 404,975 shares of common stock for exercise of Share Purchase Warrants and stock options as follows:

**Share Purchase Warrants**—The Share Purchase Warrants entitle the holders thereof to purchase an equal number of fully paid, non-assessable shares of common stock at the exercise price on or before the date at which the warrants become void.

Series of Share Purchase Warrants	Date From Which Warrants are Exercisable	Expiration Date of Warrants	Price at Which Warrants are Exercisable	Number Outstanding June 30, 1973
Series "A"	July 1, 1963	Nov. 1, 1974	\$4.50	194,975
Series "B"	July 1, 1963	May 1, 1975	\$5.50	51,000
Series "C"	June 1, 1964	April 1, 1976	\$5.50	95,000
Total . . . . .				340,975

**Employee Stock Option Plan**—The Company has reserved 64,000 shares of common stock for issuance to key employees under the Company's Employee Stock Option Plan. Options are granted at not less than 90 percent of the fair market value at date of grant. The options are exercisable in cumulative annual installments of 33 percent after the first nine months and expire five years from date of grant. Options cancelled become available for future grant under the Plan.

The following table summarizes options outstanding at June 30, 1973:

	Number of Shares	Option Price	
		Per Share	Total
Options outstanding at June 30, 1973, were granted during—			
1970 and 1971 . . . . .	32,500 (A)	\$3.25	\$105,625
1972 . . . . .	6,000	\$6.97 to \$9.00	49,940
1973 . . . . .	7,000	\$15.75	110,250
Total . . . . .	45,500		\$265,815

(A) Includes options to acquire 20,000 shares by the Company's president. These options may be exercised until November, 1980.

During 1973, options to purchase 13,266 shares were exercised, and at June 30, 1973, options for 21,837 shares were exercisable.

## 10. EARNINGS PER SHARE

**Canadian Method**—Primary earnings per share are based upon the weighted average number of shares outstanding during each year. Fully diluted earnings per share have been calculated by assuming that the proceeds from the exercise of the stock options and warrants have been applied first to reflect a reduction in the borrowing costs incurred by the Company, then to the purchase of short-term marketable securities at a yield of 4 $\frac{5}{8}$  percent per annum. This results in an increase in net income of approximately \$95,000 in 1973 and \$111,000 in 1972 for purposes of this calculation.

The average number of shares used in calculating earnings per share was as follows:

	<u>1973</u>	<u>1972</u>
Weighted average common shares outstanding during the years . . . . .	1,252,535	1,229,333
Effect of assumed exercise of stock options and warrants . . . . .	<u>396,412</u>	<u>413,528</u>
Total common shares, assuming full dilution. . . . .	<u>1,648,947</u>	<u>1,642,861</u>

**United States Method**—Earnings per share have been computed by dividing net income by the weighted average number of common shares and common share equivalents outstanding during each period. Common shares and common share equivalents included in these computations are summarized in the following tabulation:

	<u>1973</u>	<u>1972</u>
Weighted average common shares outstanding during the years . . . . .	1,252,535	1,229,333
Effect of assumed exercise of dilutive stock options and warrants . . . . .	<u>261,441</u>	<u>200,634</u>
Total common shares and common share equivalents. . . . .	<u>1,513,976</u>	<u>1,429,967</u>
Assumed additional common shares from exercise of dilutive stock options and warrants resulting from use of market price of common stock at end of year . . . . .	<u>2,022</u>	<u>73,141</u>
Total common shares, assuming full dilution . . . . .	<u>1,515,998</u>	<u>1,503,108</u>

## 11. LITIGATION

A number of legal actions have been brought against the Company and/or its subsidiaries primarily by certain suppliers. The actions brought by the suppliers generally allege breach of contract relating to component parts or assembly of calculators which the Company has found to be defective or not suitable, and has either returned to the supplier or withheld payment or both.

In one action, a supplier is seeking damages in excess of \$600,000 relating to component parts delivered to the Company and subsequently returned to the supplier as being defective. The assembler-supplier of the calculators in which the defective components were used has also filed an action against the Company claiming damages of approximately \$300,000 for components, assembly costs, loss of profits and other miscellaneous charges. The Company has filed cross-complaints to each of these actions seeking damages in excess of \$3,000,000 in each case. In another action, a supplier alleges breach of

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contract, fraud, and misrepresentation and seeks actual damages of \$772,000 and punitive damages of \$1,000,000. Component parts purchased from this supplier were found by the Company not to meet required specifications and accordingly, the parts were rejected. The Company intends to file a cross-complaint against the supplier claiming damages in excess of \$1,000,000. Other actions in which the Company is involved are similar and relatively less material than those described above. In the opinion of management and the Company's U.S. legal counsel, the Company has meritorious defenses to all currently pending legal actions.

#### **12. SUBSEQUENT EVENTS**

In July, 1973, the Company agreed to become a 50 percent owner in a joint venture for marketing calculators in France. The Company has agreed to guarantee a bank loan of approximately \$1,000,000 to the joint venture.

Subsequent to June 30, 1973, a subsidiary (Commodore Educational Systems Limited) borrowed \$490,000 from a bank. The subsidiary's accounts receivable are pledged as collateral for this borrowing.

In August, 1973, Commodore Business Machines, Inc., a subsidiary, obtained an 8½% loan of \$615,000 to purchase a building. The loan has been secured by a deed of trust on the building.

#### **13. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS**

Aggregate direct remuneration paid or payable by the Company and its subsidiaries for the year to directors and senior officers of the parent company was approximately \$210,000.

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## **Auditors' Report**

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TO THE SHAREHOLDERS OF  
COMMODORE BUSINESS MACHINES (CANADA) LIMITED:

We have examined the consolidated balance sheets of COMMODORE BUSINESS MACHINES (CANADA) LIMITED (an Ontario corporation) and subsidiaries as of June 30, 1973 and 1972, and the related consolidated statements of operations, shareholders' equity, and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Commodore Business Machines (Canada) Limited and subsidiaries as of June 30, 1973 and 1972, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

San Jose, California,  
October 12, 1973.

ARTHUR ANDERSEN & CO.

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**Board of Directors**

Irving Gould  
Coral Harbour, N.P., Bahamas  
Jack Tramiel  
Saratoga, California  
Vincent Paul  
Toronto, Ontario  
Burton Winberg  
Toronto, Ontario  
Henry B. Sussman  
Toronto, Ontario

**Officers**

Irving Gould  
Chairman of the Board  
Jack Tramiel  
President  
Gerald van Buskirk  
Vice-President, General Manager  
Gerald Worth  
Secretary-Treasurer

**Transfer Agent and Registrar**

Canada Permanent Trust Company  
Toronto, Montreal

**Auditors**

Arthur Andersen & Co.  
San Jose, California

**Counsel**

Davies, Ward & Beck  
Toronto, Ontario

**Shares Listed**

Canadian Stock Exchange  
Montreal

**Head Office**

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Ontario

**Other Offices**

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Cheektowaga, New York 14225  
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Nassau, Bahamas  
CBM Business Machines, Limited  
446 Bath Road  
Slough SL1 6BB, England  
Commodore Buromaschinen GmbH  
3000 Hanover 17  
Am Schafbrinke 62c  
West Germany  
Commodore France S.A.  
56 Rue N.D. de Lorette  
Paris 9, France  
Commodore Japan Limited  
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2-23 Shinjuku 4-Chome  
Shinjuku-ku, Tokyo 160, Japan  
Commodore Educational Systems  
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4-2-23 Shinjuku-ku  
Tokyo 160, Japan





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(Canada) Limited**

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